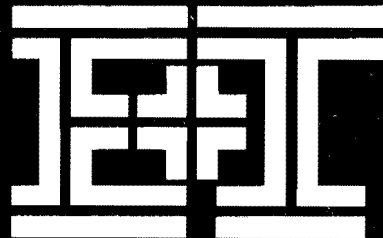


Employment and Training

Managing a community employment Co-operative



\$4

A GUIDE TO
COMMUNITY EMPLOYMENT
CO-OPERATIVES

*The book is a guide only. It does not
provide the detailed information needed
for a business. It does not provide
legal or professional advice.*

EDITED BY: ROSE KINSON

for The Victorian Ministry
of Employment and Training.

MESSAGE FROM THE MINISTER

Victoria is promoting new strategies for employment growth, including the development of small business and work co-operatives.

The Ministry of Employment and Training is assisting Victoria to achieve this objective. We must foster an entrepreneurial climate in which employment opportunities are expanded through economic growth.

The Co-operative Development Program has been developed to reinforce the community's capacity to create new jobs. Co-operatives are a new form of employment enterprise which uses existing capital resources and extends the ability of unemployed people to obtain worthwhile employment.

This manual, "Managing a Community Employment Co-operative" outlines the many steps that have to be taken in legal, financial, marketing and management areas to establish and successfully run such a co-operative.

It will provide a useful guide to established co-operatives and to community groups who may be interested in setting one up.

I wish you well in your endeavours.



Brian Dixon M.P.
Minister of Employment and Training
Melbourne September 1981



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WHAT IT'S ABOUT

This book is a guide for people interested in work/community employment co-operatives, or starting a small business.

It shows how to set them up, and keep them going.

It tells where the money sources are, and where to get the professional advice that is vital for success.

It also points out the pitfalls, and advises on safeguards.

You've got a better chance of attracting loans, grants, or other finance, it stresses, if you're prepared to put up your own money and/or efforts. Many people are ready to help.

To protect everyone concerned, all co-op founders should first find out about the :

- o advantages
- o disadvantages
- o privileges
- o responsibilities
- o legal position
- o financial aspects

of a co-operative business concern. The same applies to small businesses.

Failure to do this means failure of your business or co-op.

NOT JUST A GOOD IDEA

Too many people go into such ventures with a very good idea, no experience, and little knowledge of the kinds of information and management skills needed to keep going as a successful concern.

Fortunately, this information is readily available. Quite a lot of it is free. The Small Business Development Corporation, the Co-operative Federation of Victoria, employer, business and community groups will give much valuable free information.

For legal and financial aspects, it is vital to get the best possible professional advice. You need a lawyer and accountant.

WHY HAVE CO-OPS?

Why do people start co-operatives or more traditional small businesses?

Co-operatives have existed in many countries for over 100 years. They were started by low-income people to improve their economic and social position when jobs were scarce.

- o Nowadays, unemployed people might form their own co-ops to create jobs.
- o Service groups such as Rotary, Apex, and Lions, and other community groups might want to form co-operatives to give others jobs or help the community in some other way.
- o Or both groups might combine resources and talents to start one.

More traditional businesses, on the other hand, are often started by people who are highly individualistic, like working for themselves instead of for a boss, and see it as the way to independence and prosperity.

MAKING A START

First, call a preliminary meeting - private or public - of interested people, to discuss why you want to start a business, and the prospects of success.

You could get some valuable advice by inviting the Small Business Development Corporation, and the Co-operative Federation of Victoria, to this first preliminary meeting.

These are some of the questions to be tackled :

- o Why get involved in a business?
- o Is this the answer to unemployment problems?
- o Is there a link between business enterprises and the unemployed?
- o How is the community affected by this enterprise?
- o Is it easier to start your own business than to work for someone else?
- o Do you have plenty of energy, physical and mental?
- o Are you confident, persistent, tenacious, ready to work long hours? And harder than you've ever worked before?
- o Can your group work WELL together?
- o Can you attract enough members (at least seven)?
- o Do you want to establish the business, or have others establish it?
- o Can you work without direction or support?
- o Do you, or others involved, have the capacity, the interest and commitment, to manage the business?

ASK THE PROFESSIONALS

Those at your first meeting should include a lawyer, an accountant, a local bank manager (you could find out whether he would support you in occasional cash shortages) plus a broad cross-section of the community, and a mix of employed and unemployed.

If it seems worthwhile going on, an investigating committee should be appointed to go into details. You need a combination of legal, financial, community, working and unemployed people to report on every aspect. They would report back on :

- o Need for the business
- o Possible products or services
- o Management needs
- o Financing it
- o Community resources available
- o How it will affect the community

TIPS FOR SUCCESS

The Small Business Development Corporation of Victoria says the best chance for business success is to :

- o Satisfy a local need
- o Offer something extra
- o Use the proper mark-up for that type of business
- o Have sufficient working capital
- o Owners to fund at least 40% of total capital needs

It is vitally important, the Corporation says, for the owner(s) to have good management. That means proper planning, direction, organisation, control, innovation, staffing and supervision.

The business will have problems of establishment and development, without them.

BE COMPETITIVE

Experience shows that small businesses can have a competitive advantage - if they offer quality, lower prices, good design, and prompt delivery; if they're flexible in meeting customer's orders, and give good after-sales service. *

Small businesses may also have an advantage where technology requirements are few; where the necessary management experience is not so important the need for capital funds is low; and if the goods produced or re-sold can be marketed locally. **

* Johns, B.L., Dunlop, W.C., and Sheehan, W.J. : Small Business in Australia: Problems & Prospects, George Allen and Unwin, Sydney, 1979, pp. 54-60.

** Weston, J. Fred. : The Financing of Small Business, Macmillan, New York, 1967, p. 46.

WHAT SHALL WE SELL?

Small or co-operative businesses might enter the fields of: energy storage, waste material processing, second-life re-cycled products, wind or solar technology, wave, tidal and geo-thermal technology, repair and maintenance work, secondhand goods, craft goods, and tourism.

NOT YOUR FAULT .. BUT..

It is estimated that about 12,000 small businesses fail in Australia every year. Almost as many hopefuls set up business annually in Australia.

It may be the owner(s) fault. It may be reasons beyond their control. But it emphasises the need for careful investigation before you start, and good management when you do.

ROAD TO RUIN

Reasons for failure include :

- o Lack of management skills
- o Sloppy records
- o Reckless money management
- o non-planning of time, resources and objectives
- o Lack of marketing skills
- o Simple human factors.

Costly mistakes occur unless records are adequate and up-to-date. Proper records are needed for tenders and job estimates; for profit and loss areas; to back up tax claims; get adequate insurance; and prevent pilfering.

Reckless money management means you buy too much stock, don't collect debts on time, and don't vet the petty cash.

You'll move from one crisis to another, without proper planning of time, resources and objectives. Good management skills and expert outside advice are essential.

It's no use producing goods and services unless there's a market for them. Market planning means finding out first if you're up against successful similar products; whether your products are out of date, and whether the price is right.

No business can ignore the human factor - the needs of everyone from customers to directors, partners and workers.

ECONOMIC CLIMATE

It may not be your fault, but the current economic climate may bring problems outside your control.

Under-capitalisation by shareholders and partners may make it hard to attract loans - so, the business has liquidity and expansion problems.

Finance institutions expect any business, including co-ops to be commercially viable, and work on similar funding ratios.

They look on co-operatives with extra suspicion - because they suspect their democratic structure and business capacity, especially if they recruit the unemployed who MAY be the least useful.

Co-operative shareholders must be willing to buy more shares, and subscribe for extra capital when needed. If not, it is hard to borrow elsewhere.

FIRST FIND YOUR MARKET

A marketing study is essential to success. It is no use having a good product or service, if you can't sell it.

A marketing study prevents you making basic mistakes, and helps you avoid the avoidable.

Most common reasons for failing to sell products and services are :

- o Lack of knowledge on markets
- o Prices too low to cover costs
- o Prices too high, so you don't sell
- o Allowing excessive credit
- o Staying too long with failed products
- o Poor design and presentation
- o Promoting too many products without adequate resources

ADVERTISE IT TOO

Find out what kind of advertising is needed, and what it will cost. Packaging is important. What will your product need?

You'll need to consult a business consultant to find out many of your marketing and production facts. Also, talk to potential customers, suppliers, and distributors of your product and the raw materials needed for it.

GET ALL THE DETAILS

Your committee will investigate the best site or building for you, the facilities and equipment needed. They will ask :

- o Should you buy, lease, or get it on hire purchase?
- o Does the local Council have an unused site or building they'll let you use? It might come free, or at a reduced rent.
- o What will it cost?
- o Will your raw materials suppliers give you credit? On what terms?
- o Is good used equipment available?
- o Are skilled, experienced workers available?
- o How many workers are needed?
- o Is the necessary management skill available?

DON'T BE A FLOP!

Any business needs good management - capable, competent people who can act as directors and managers.

Do your co-op members realise the need for management skills?

Without those skills, a business can't do well, no matter how urgent is the need for the business.

Enthusiastic directors don't necessarily make good managers, directors. Directors need ideas, and entrepreneurial flair. Good managers are competent managers, but they may not have entrepreneurial flair. Both should be prepared to work long hours, be decisive self-starters, stable, and sticklers for having things right. Both

managers and directors should understand business principles and practices. They should be able to set out short-term and long-term goals, develop plans to carry them out, and controls to see that the plans are followed.

It is important to prepare a job description for the manager, setting out rights, responsibilities, and relationship with the Board of Directors. Directors are responsible for long-term plans and development. They should be competent, able to oversee the business and join its activities. Managers must be able to manage, win the confidence of members, workers and directors, take responsibility for daily operations, follow Board policy, and co-operate with it.

WHO'S IN CHARGE?

Decide early on worker-control and/or worker-participation. In any co-operative, workers take more part in decision-making than in a traditional business. The distinction between workers and management is not so clear-cut.

The differences are :

- o Worker control means the workers own and control the business.
- o Worker-participation means they participate in the ownership and control of the business.
- o An alternative is community ownership and worker-control.

CAN YOU AFFORD IT?

Can you afford to start the business?

Costs of a serious business cannot be based on voluntary labour and calculated risks. The total capital needed depends on the type of products or services, and the risk involved.

You need to work out a projected Income and Expenditure Budget to decide whether income will cover costs of production. Costs

include :

- o Salaries, advertising, stock,
- o Premises, rent and maintenance,
- o Motor vehicle and maintenance,
- o Equipment to run the business,
- o Telephone, postage, insurance, electricity, water,
- o Daily running costs,
- o Cash to carry-over until the business makes income to cover costs.

Initial capital is also needed to cover incorporation and registration costs.

Capital contribution from owners and/or members is evidence of good faith. No outside credit source is likely to take a financial risk unless those involved are willing to invest.

COMMUNITY HELP - GETTING THE CASH

Many people are willing to help you start a business for, with, or by the unemployed. They include :

- o Local clergy and church members
- o Local businesses and trader groups
- o Local Councillors and Council officers
- o Schools - primary, secondary, technical, universities, colleges of advanced education
- o Service clubs - Rotary, Rotaract, Apex, Lions
- o Community Welfare Services Dept. regional officers
- o Commonwealth Employment Service local officers
- o Social Security Dept. regional officers
- o Community Progress and Resident groups
- o Hobby/Interest groups and individuals, with specific skills
- o Elderly Citizens, individuals and groups
- o M.P.'s, State and Commonwealth
- o Laborpower programs

It's equally important that community support is committed as well as concerned. It's important that the community supports the co-operative as "theirs" and not for someone else.

GET GOOD ADVICE

Business advice can be sought from the Victorian Chamber of Manufacturers, Victorian Employers Federation, the Small Business Development Corporation and the Co-operative Federation of Victoria.

For research information, ask CSIRO, Industries Assistance Commission, Victorian Employment Committee, Institute of Applied Economical and Social Research, and the Brotherhood of St. Laurence.

Your MOST IMPORTANT sources of advice are :

- o an accountant - for sources of finance, book-keeping, financial system, correct planning and profit margins, tax.
- o a lawyer - for tax laws, contracts, selling goods and services, legal forms and procedure.

GOVERNMENT GRANTS

Government grants and/or loans are sometimes available for businesses which seek to help the unemployed. But you should seriously consider whether establishment of your business could create unemployment in other businesses competing in the market-place, before seeking help. You might also get a grant from one of the many philanthropic Trusts and Foundations.

BEFORE YOUR FORMATION COMMITTEE

Your investigating committee, armed with as much as possible of the above information, will now make a written report to your group. It should be circulated at least seven days BEFORE a meeting is called to discuss it.

It should recommend further action. If your committee did not have time or resources to complete the report, it should say so. It may seek more time, or ask that someone be employed to complete the report.

FINALLY, a meeting is called, the report submitted, and a decision made: what to do next.

USEFUL PUBLICATIONS:

MARKETING: Marketing a New Product (No. 9); Marketing (No. 6); Advertising (No. 27) in Managing a Small Business series (Dept. of Industry and Commerce); Small Business Management in Australia, G.G. Meredith (McGraw Hill Book Co. Sydney, 1977, pp. 31-74).

BUSINESS: Checklist for Starting a Business, in Managing the Small Business Series - Dept. of Industry and Commerce; Minding Your Own Business, Jo Kinross and Sylvie Shaw, Cassell, Australia, 1981; Work for Yourself, Chris Parsons and Angela Neustatter, Pan Books, London and Sydney, 1980; How to Start a Successful Business, William Prentice, a Mayflower Book, Granada, London, Toronto, Sydney, New York, 1980; Starting and Managing a Small Business: An Australian Guide, L.G. Tayler, TAFE Educational Books, Kensington, 1980; Commerce, Teach Yourself Books, Ronald Warson, Hodder & Stoughton, 1978; Commerce Made Simple, Geoffrey Whitehead, W.H. Allen, London, 1975.

ORGANISATIONS: Co-operative Federation of Victoria, Box 5211 AA, GPO Melbourne 3001. Tel: (03) 663 1674; Industrial Design Council of Australia, 37 Little Collins St., Melbourne 3000. Tel: (03) 63 9124; Registry of Co-operatives, Myer House, 250 Elizabeth St., Melbourne 3000. Tel: (03) 669 1100; SCORE, 370 St. Kilda Road, Melbourne 3004. Tel: (03) 698 4358. Also at GPO Box 1469 N, Melbourne 3000; Small Business Development Corporation, 4th Floor, 100 Exhibition St., Melbourne 3000. Tel: (03) 63 9825/4191.

WHAT'S IN A NAME?

If your business is to have a name, it must be registered with the Corporate Affairs Office at 167 Queen St., Melbourne.

Get an Application (Form 1) from that office, fill it in, and return it to the same office. There's a \$20 fee. The name must be renewed every three years.

The Corporate Affairs Office will check if the name you want is available to you. You can't register a name that's misleading about your business, or similar to already established names. It can't be registered more than two months before you start the business. Names such as Bank, Trust and Guarantee, and words indicating a charity or non-profit-making organisation, are also not to be registered.

SEE A LAWYER

You need a lawyer's advice about the legal structure of your business, or you could be in trouble. You must be on a proper legal footing.

You may be Incorporated, or Unincorporated. Check the for-and-against of both.

A Sole Trader (a one-person business), and a Partnership of up to 20 persons may be unincorporated, a fairly simple structure.

Incorporation is suited to bigger, more complex groups. Indeed, in some cases it is legally necessary.

Incorporation is for: Co-operatives. Companies Limited by Guarantee. Proprietary (Private) Companies. Exempt Proprietary Companies. Public Companies.

A sole trader makes all the decisions and reaps all the profits of a business - but is also responsible for all debts, profit tax, and losses. Partnerships of up to 20 have the advantage of extra skills and funds. But each partner has unlimited liability for the firm's obligations, decisions may be difficult, and partnership transfers need the agreement of all the partners.

IS IT BETTER TO INCORPORATE?

At present, it costs nothing to Incorporate a co-operative. Also free are the various returns which must be made to the Registry of Co-operatives. Legal and formation costs are minimal. All the necessary documents may be prepared with the help of the Registrar of Co-operatives, at 250 Elizabeth St., Melbourne. Tel: 669 1100.

Government and non-Government bodies may refuse funds unless your group is incorporated.

Incorporation protects members by limiting their liability.

- o An incorporated group can make any sort of contract, may sue, or bring about a Court action, may hold a lease on premises, and receive a bequest from a will. (An unincorporated group may not).
- o A co-operative, or incorporated company, has "perpetual succession". It is not affected by the death, insolvency, or lunacy of any, or all, of its members.

However, incorporation of a company is more expensive than incorporation of a co-operative. Company legal advisory costs may be expensive.

DEMOCRATIC CO-OP SET-UP

Co-operatives are, in theory, the most democratic form of business organisation. People are as important as profits. The principles on which they are run are :

- o Voluntary, open or bond membership
- o One person one vote, irrespective of shareholding
- o Surplus or savings belong to members, as reserves for development, or distributed in proportion to support given
- o Interest payable on shares is limited by shares
- o Education of members
- o Active co-operation between co-operatives
- o Directors must be members, and are appointed by members

CO-OP BENEFITS

Co-operatives enjoy tax and stamp duty benefits.

If they can prove that 90% of their trade is with members, co-operatives may be in the category of Co-operative and Mutual Companies for income tax (Division 9, Commonwealth Taxation Act).

They are exempt from sales tax if they can prove they are basically non-profit organisations, and their rules do not provide for rebates or dividends.

In Victoria, co-ops are exempt from stamp duty on cheques, receipts, share transfers; or on the conveyance or transfer of real property acquired by a community settlement society.

A legal advantage is that the Co-operation Act 1958 is easier to understand than the Companies Act 1961. Many business people and solicitors do not properly understand the Companies Act.

Co-operative shareholders can receive up to 10 per cent interest on shares.

GETTING THINGS CLEAR

So you've decided you want to start a co-operative society.

You may ask the Registrar of Co-operatives for advice at any stage.

But it is best to have a clear idea first of the possibilities - how many members, your aims, support, resources, financial prospects, what and how do you intend to sell? Goods, or services such as gardening, housework, repairs, laundry?

The Registrar will explain the Co-operation Act and give you :

- o Copy of "Model Rules" for your group to study
- o Co-operative Societies Handbook

You'll be told to conduct a "feasibility study" on the practical possibilities.

May be you've done this already? (See: Ask the Professionals, What Shall we Sell? Find Your Market, Get the Details, Can you Afford It? and Getting the Cash).

You'll be told about the S31 document (your intentions, why it is a co-operative, can it succeed?) which must be submitted to the Registrar, with your own proposed Rules, before being presented for approval to your Formation Meeting (with at least seven prospective members).

S31, and the Rules, must be adopted, with or without amendment. The meeting should then elect its first directors.

Your "feasibility study" should cover: sponsors (community, council, others?) support? Government or other grants? income and expenditure budget? proposed premises? who's in charge? and do you have competent people to manage it?

REGISTRATION AS CO-OPERATIVE

The registration application must be made within two months after the formation meeting.

The Registrar needs Forms 1A, 2, 3 and 4A, containing:

- o Registration application signed by all the Society's directors
- o Statutory declaration by the chairman and secretary of the formation meeting that it complied with the Act (Section 31)
- o Full name, address, occupation, of each director
- o Particulars of each membership application
- o Also a copy of statement presented to the meeting, and two copies of the proposed rules, signed and witnessed, from seven membership applicants, all over 18 years old.

SAFEGUARD ALL REGISTERS

A co-operative society must, by regulation, keep all these Registers:

- o Members and shares
- o Withdrawals and forfeitures
- o Share transfers
- o List of directors
- o Loans raised and securities given
- o Deposits received

The Registers must be on uniform-size loose leaf sheets printed by the Government Printer, 7A Parliament Place, Melbourne, 3002, and kept in a suitable binder UNDER STRICT CONTROL.

Each sheet, when issued, should be initialled and dated by a responsible officer such as the general manager, or chairman of directors.

This strict control is needed because past legal decisions have referred to the disadvantages of loose-leaf records, compared with bound books. Strict safeguards will maintain the value of the records if they are needed in Court to prove a deal.

ALTERNATIVES TO CO-OPS

For small businesses, the most appropriate legal structures are the proprietary company, and the company limited by guarantee.

- o The Proprietary Company because it is small (50-member limit)
- o The Company Limited because it is the non-profit alternative to a Co-operative Society.

The advantage of a Proprietary Company over a Co-operative is: It can be formed with a minimum of two people. There is more flexibility in the age of members, the number of directors, and the company's activities.

PROPRIETARY COMPANIES

A Proprietary Company, under the Companies Act 1961, must:

- o Restrict the right to transfer its shares
- o Limit the number of members to 50
- o NOT invite public subscription for its shares or debentures
- o NOT invite the public to deposit money for fixed periods, or payable at call, whether it bears interest or not.

An incorporated proprietary company must register its nominal capital.

A co-operative, on the other hand, has an unlimited number of members. Its capital and borrowing capacity is related to the number of shareholders and the value of their shares.

NON-PROFIT COMPANIES

The non-profit company alternative to the co-operative, that is, a Company Limited by Guarantee, is formed on the principle of members' liability limited by a specified amount, such as 50 cents.

The Minister may allow a company to be incorporated without the word 'Limited' added to its name (because it implies commercialism) But to win this exemption, the company must:

- o Provide recreation or amusement
- o Promote commerce, industry, art, science or religion
- o Or any other objective useful to the community

No dividends can be paid to its members, and profits, if any, and other income, must be used to promote those objectives listed. The Company Limited by Guarantee is not listed on the Stock Exchange, does not have shares which may be traded, and if the company is wound up, members must contribute an agreed amount to company assets, IN ADDITION to any amount unpaid on shares held.

COMPANY EXEMPTIONS

The Minister, when issuing a license to a Company Limited by Guarantee, may also, if asked, exempt it from having to lodge annual financial returns, and returns with details of directors, secretaries, and managers.

It is not usual to get such exemption if the company solicits funds from the public, or receives Government grants, or trades or carries on a business.

Otherwise, a Company Limited by Guarantee is still a public company. Like co-operatives, it has the responsibilities of an incorporated company - that is, it must keep books and records, file non-exempt returns, maintain various registers, and hold annual meetings. It must also pay the registration fee.

HOW IT'S DONE

If you've decided to be an incorporated company, the first step is: Reserve a company name with the Corporate Affairs Office. Fee \$10. Place: 167 Queen St. Melbourne 3000. Tel: (03) 60 0361.

If the name you choose is acceptable, it is reserved for two months. If not, choose another.

Within two months, you must collect information on: Company name, objects, share capital, liability of company members, full names, addresses, occupations of subscribers, association clause, subscription of memorandum and articles.

You must also prepare Articles of Association. These are the company's internal management regulations, which must comply with the Companies Act, 1961. You need a list of people willing to be directors, and the address of the registered office.

All this, on the appropriate forms, goes to the Corporate Affairs Office. If all is correct, you will be incorporated (fee \$203).

WHAT'S NEXT

Within a month of incorporation, you must submit a return (Form 17) of allotment of subscribers shares, and Form 43, showing appointments of directors and secretaries, and dates of appointments.

Also within that month, the directors must appoint an auditor Section 166 (1) Companies Act. This applies to all "non-exempt" proprietary and public companies. An "exempt" company (section 5(1) and (7) is not obliged to comply with 166(1)).

All shareholders must be advised of proposed changes to the memorandum of Association or Articles of Association. The changes must be approved by 75% of shareholders at a meeting of which they have been advised. The resolution passed, you then advise the Corporate Affairs Office, on Form 7.

KEEP REGISTERS SAFE

The Registers (lists) of company:

- o directors/managers/secretaries
- o subscriber/shareholders/members

must be kept safely, usually in your registered office.

The members/shareholders list may be kept elsewhere, but still within the State.

- o Other registers, including minutes of meetings, must also be safely kept.

ANNUAL MEETING

The company's annual general meeting must be held within 18 months of incorporation.

Each shareholder must be notified, and receive a balance sheet, profit and loss account, financial statement, and directors' report.

The annual return must be sent to the Corporate Affairs Office (minimum fee, \$50) within one month of the meeting. It must include a certified true copy of all accounts presented, with a copy of all other required documents. "Exempt" proprietary companies may be exempted from providing financial statements. There's a fine for late returns. Minutes must be kept of all General Meetings, directors and managers meetings.

The Corporate Affairs Office keeps a close watch on companies to protect shareholders.

It does not advise on the kind of company best suited to your needs. It does not assist in preparing Memorandum of Association, or Articles of Association. You need a lawyer to act for you.

LIST OF FORMS NEEDED

Most commonly used returns the Corporate Affairs Office requires are :

- o Form 7 Notice of resolution
- o Form 10 Reservation of name
- o Form 17 Allotment of shares
- o Form 37 Situation of registered office
- o Form 37a Situation of principal office, etc.
- o Form 38 Consent to act as director
- o Form 42 List of those who consent to be a director
- o Form 43 Directors, managers and secretaries register
- o Form 47 Place of register
- o Form 49 Annual Return of company without share capital
- o Form 50c Notice of resignation or removal of auditor

There is a fee for some returns, no fee for others. Details from the Corporate Affairs Office.

USEFUL PUBLICATIONS

- o Forming a Company
- o Selling a Business
- o Buying a Business
- o Forming a Partnership (All from Law Institute of Victoria)
- o Co-operation Act 1958; Companies Act 1961; The Law and You; Business Names; Business Names Act 1962; Statutory Obligations of Companies and their Officers. All from Corporate Affairs Office, 167 Queen St. Melbourne 3000. Tel: (03) 60 0361.

WHERE'S THE MONEY?

Getting finance is vital to any business venture. Ask yourself :

- o What are the financial needs of the business?
- o How much should YOU put in?
- o How to get finance?

Raising finance is always hard - especially for new businesses. Lenders want to know your past record and future prospects. They're even more suspicious of a co-operative's prospects.

Briefly, the potential money sources are :

Self :	Small business owners and shareholders
	Co-operative members, business trade practices
Community:	Fund-raising
Public:	Commonwealth, State, Local Government grants and/or loans
Benevolent Trusts:	Get a list, find out what's offered
Private:	Trading banks, finance companies, venture capital.

YOUR MONEY FIRST

Self-finance is the most important contribution. The more you put in, the more you will attract from other sources.

The number and value of shares is important. For co-operatives, Government guarantees may be available on 80% of uncalled capital. This means the minimum shareholding may be ten \$10 shares, and assuming a paid-up value of \$10, uncalled capital is \$90.

Profits, once they start, are a good source of business funds. About 30% of profits should be retained after tax, depending on the needs of the business. More would have to be retained if expansion or replacements were planned.

Extra funds could come from a change in credit policies. Chasing up accounts helps, selling off excess stock, delaying new stock, all help. Depreciation is a cash refund from current earnings, of the original capital investment. You may be able to borrow on unencumbered personal assets.

THE COMMUNITY HELPS

An ordinary business is unlikely to go into community fund-raising.

Co-operatives, or non-profit companies can, when they're doing something about unemployment, acting either for, or with, unemployed.

Auctions, bazaars, bingo, door-to-door canvassing, using celebrities, luncheons, theatre parties, concerts, carnivals, tennis or squash tournaments, fee speakers, church canvassing, and direct mail soliciting, are possibilities. You could recruit members, too, or hold marathons.

A useful book on Community Fund-raising is Joan Flanagan's *The Grass Roots Fund-raising book: How to Raise Money in Your Community* (The Swallow Press, Inc., Chicago, 1977).

GRANTS, LOANS & INCENTIVES

Government and non-Government grants, loans and incentives are many. They include :

The State Department of Economic Development gives incentives to some country industry. Help includes finance, housing, electricity connections, personal removal expenses, and transport of plant and equipment, to establish or expand industry. Land and payroll tax rebates, transport and rail freight subsidies, bulk L.P. gas subsidy, job incentives, and Government contract preferences are available.

Other help includes community facilities, services, consultative and advisory services on site location, land and buildings for industry.

The Victorian Economic Development Corporation helps preferred country industry with direct loans, and guarantees to support loans from other lenders. It buys and builds factories for lease to country manufacturers. It does seek all available security to cover the loans.

Tenders preference of up to five per cent is available to approved decentralised industry, in State Government and semi-government contracts. All other tender requirements must be met. Victorian manufacturers can also get a 10% preference over others, when seeking Victorian Government and semi-government contracts.

Provincial Local Government may provide loans for business development. They may also help with lease, rental, or lease/purchase of industrial land and/or factories. Industrial estate help is available.

The Community Welfare Services Department makes three types of grants. They are : One. Information and Co-ordination Grants to Local Government on a 2:1 basis, to make it easier for residents to seek and find information relevant to them and their families, in the human services field. Two. Community Service Grants to assist family and community services, such as community and social development, neighbourhood organisation services, volunteer and self-help groups, regional information, family strengthening and support services. Three. Local Initiative Grants to help Regional Consultative Councils in regional social planning, community organisation and consultation.

Small Business Development Corporation may recommend Victorian Government guarantees to small businesses needing finance, if they can show viable prospects. The Corporation cannot itself lend money. The Corporation can also give advice on the right procedures and submissions to a bank or other financial institution, for funds. It will advise on general financial management.

The Forests Commission has two programmes. Farm Forestry loans and the Tree Growing Assistance Scheme. The Forests Commission 25-year loans for farm wood-lots provide \$450 minimum, \$8,000 maximum to any one owner. Loans are interest-free for 12 years. The timber is for processing in rural areas. The Tree Planting Assistance Scheme provides a grant of \$12,000 maximum, to individuals or organisations, to plant and care for non-commercially grown trees. Any proposal must benefit the wider community. The money may be used for preparing sites, planting, - planting, regenerating, tending or protecting trees, machine hire, materials, labour costs, and technical advice. The \$12,000 maximum is to any one person or group in any one year.

The Export Market Development Scheme encourages firms to seek and develop overseas markets, and take part in Commonwealth Government-sponsored promotions. Taxable grants are payable on eligible market development expenditure, incurred for any goods, services, industrial property rights, and know-how, which are substantially of Australian origin. They are available for value-added industrial services, performed on imported goods owned by foreigners and subsequently exported. A taxable grant of 70% of eligible expenditure is payable. The maximum grant to a claimant in any one grant year is \$100,000, plus an additional \$25,000 in respect of eligible expenditure on Government sponsored promotions.

AID FROM PHILANTHROPIC TRUSTS

Over 292 Trusts and Foundations operate in Australia, including 19 with principal offices outside Australia. The Australian-based Trusts disburse more than \$75 million a year.

The Australian Council of Educational Research gives a list of their names, addresses, functions, how much they give away, and their publications, in *Philanthropic Trusts in Australia*, 3rd Edition, 1980. Before making a submission, contact the Trust to find out if your application is relevant.

PRIVATE FINANCE

A bank overdraft may provide the funds you need. Security is needed, such as a debenture over company assets, a mortgage over company property, or a guarantee.

Main sources of private finance are : trading banks, authorised money market dealers and corporations, finance companies, Commonwealth Development Bank, Australian Industry Development Corporation, Export Finance and Insurance Corporation, Australian Resources Development Bank, and Primary Industry Bank of Australia.

In all cases, you'll need to present accurate and reliable information. You should make a comprehensive presentation covering :

- o amount of finance required
- o the period for which it is required
- o the purpose for which it is being sought
- o the financial position of the business

In support of this, you need to provide information on :

- o accounting, management information, budgetary control system
- o audited accounts and an analysis of any profits
- o details of products and/or services, their markets and prospects

Remember, if your information is inadequate, your submission will be deferred or rejected.

MAKE IT LEGAL

All businesses must operate in a legal environment, established by common law, specific legislation and regulations. The way you produce goods or services, the way you sell it, advertise it, make claims for it, all under the law. If you don't know what you're doing, and don't know what the law says about it, you could be in trouble.

The Acts which refer to most businesses are :

- Trade Practices Act 1974
- Environment Protection Act 1970
- Goods Act 1958
- Consumer Affairs Act 1972
- Companies Act 1961
- Co-operation Act 1958
- Weights and Measures Act
- Health Act 1958
- Labour and Industry Act 1958
- Income Tax Assessment Act
- Hire Purchase Act 1958
- Patents Act 1952
- Payroll Tax Act 1971

Anyone involved in a trade covered by a Victorian Wages Board must comply with the Wages Board determinations, and the Labour and Industry Act. Ask the Department of Labour and Industry if your trade is covered by a Wages Board.

THIS IS A "MUST"

All factories and shops must be registered with the Department of Labour and Industry. To do so, a factory or shop must meet its legal obligations, including safe working conditions, award wages, and workers' compensation coverage.

"Shop" means any building or place, or portion of a building or place, or any stall, tent, vehicle or pack in which goods are exposed or offered for sale by retail.

Department of Labour inspectors are responsible for the registration of factories and shops, the promotion and enforcement of safety standards. Enquiries about machinery guarding, and reporting of industrial accidents, are handled by the Safety Promotion Division of Inspection Services.

The Department issues various certificates of training and proficiency, permits, including slow worker permits, use of explosive power tools, approval of hairdressing premises, factory plans, use of scaffolding, and others.

AWARDS

The Departments of Labour and Industry is responsible for State Wages Board determinations, and for regulations on safety, lighting, heating, fire services, and sanitation, ventilation, construction and maintenance.

All businesses must observe the awards covering wages and hours, meal breaks, holidays, sick leave, protective clothing, first aid kit, part time and casual workers, time book and union access.

These records must be available for inspection by a Department inspector: Record of employees, Time Book or daily record of work hours, annual holidays, long service leave, record of outside work.

Employers and employees have duties to each other. The employer must provide safe working conditions, proper supervision, proper and safe plant and appliances. They must pay wages, provide medical care, and references, and be answerable for employees acts while working.

CONSUMER PROTECTION

The law says consumers must not be misled or deceived about goods and services they buy, and goods must not be defective. False claims must not be made about goods sold.

Consumers can expect the same about services, and they may also expect reasonable care and skill in providing the services. The materials used should be what the consumer asked for. Spare parts and repair facilities should be reasonably available, unless the manufacturer or importer states otherwise before purchase.

This consumer protection cannot be taken away by any signed contract, or in any other way. It is provided by the Commonwealth Trade Practices Act. Manufacturers and importers of goods are covered by the same protection provisions for the customer, as those who sell them.

COURT AND TRIBUNAL

All business enterprises should be aware of the Small Claims Tribunal, and the Market Court.

The Small Claims Tribunal referee tries to negotiate and settle disputed contracts between consumer and trader. If he cannot do so, he may make an Order for work or money up to \$1,000. It is legally enforceable.

The Market Court was set up to restrain traders who persistently follow unfair trade practices. The Director of Consumer Affairs is the only person who can take the trader to the Court. The Court comprises a County Court Judge, one traders' and one consumers' representative. The Court has power to set standards for a trader to follow, with a \$5,000 fine for failure to comply.

ADS MUST BE RIGHT

The law prohibits false or misleading advertising or price marking. If goods are advertised at a certain deposit, the cash price or the periodic payment rate must be stated. Door to door salespeople must show identification cards to the customer. In the case of a credit sale, or cash over \$50, the buyer must be given a prescribed statement of the right to cancel within 10 days. The agreement must be in writing.

Descriptions of goods must be accurate. Textiles, for instance, must show details of fibre content if they are described. Leather and imitation leather, bedding, and upholstered furniture are included in this provision. Footwear must be clearly marked with the materials used.

Warning notes or instructions are required for some goods, such as spirit stoves, which must be marked "use methylated spirit only". If they ask, consumers must be given an invoice or other document identifying the goods or services, and the standard of the goods or services.

ENVIRONMENT PROTECTION

The Environment Effects Act, 1948, applies mainly to public works, but may also apply to private developments.

The Ministry for Conservation, which administers the Act, can assist those proposing developments, with advice on the possible effects of their proposals. It is vital to consult the Ministry early. Officers will be readily available.

The Environment Protection Authority, set up under the Environment Protection Act 1970, uses licenses to avoid air, water or land pollution. Waste cannot legally be discharged without a license.

The law says "waste" is matter which can alter the environment. It cannot be discharged on land where it will pollute the soil and make it potentially dangerous to humans, animals, plants, birds or wildlife.

Licenses cannot be bought. One is granted only if the EPA considers there will be no undue damage to land, water, or atmosphere. The EPA may suspend or revoke licenses, or amend them in some cases.

Penalties for unlicensed discharge are up to \$500, and up to \$5,000 for second or subsequent offences. There is a daily penalty of up to \$2000 for a continuing offence.

APPEALS

There is a right of appeal to the Environment Protection Appeal Board. Appeals are heard from license applicants, licensees, and third party objectors to the preliminary determination.

The EPA has prepared Noise Protection Control legislation to protect nearby residential premises from noise caused by commercial, industrial or trade premises. It is awaiting proclamation.

Industry with substantial air emissions should provide the EPA with details of main wind streams, their speed, direction and frequency, height and frequency of inversions, existing air pollutants in an air shed, and other influential parameters. There are published EPA guidelines on recommended buffer zone dimensions between industry and other urban areas.

TRADE UNIONS

Trade Unions are recognised by Governments and employers as the legitimate representatives of workers. They strive to get better wages and working conditions, and they protect individual employees.

All co-operatives and small businesses, workers and management, should carefully consider the advantages of workers joining appropriate unions.

Some see co-operative memberships as an alternative to union membership. Yet they are not necessarily incompatible. It depends on whether or not you see co-operatives as part of the labour movement, as an alternative to traditional union-management relationship - or as just another business enterprise.

Depending on your point of view and interests:

- o It may not be in the interests of the co-operative for its workers to join unions.
- o But, it may be in the interests of the individual workers.

The only disadvantage to co-operatives, if their workers join unions, is caused if the co-op is not observing the law itself. Is it paying award wages? Is it providing award conditions? Does it provide workers' compensation?

As long as co-operatives are not worker-co-operatives, there is always the potential for conflict between management and workers. If the co-operative is not observing the law, it is to the workers' advantage to join the unions.

Trade unions are a potential source of support for workers and co-operatives - in providing finance and other resources, and moral support. They are also a political support.

Some community support for co-operatives is anti-trade unions. But co-operatives have no right to discourage workers from joining trade unions. It is also against the law. The local Trades and Labour Council will advise on the appropriate unions for workers.

INSURANCE

Australia has about 200 insurance companies. Competition is cut-throat, rates come "out of the air". Cheapest is not always best - there are many collapsed insurance companies.

Co-operatives should note the existence of the Co-operative Insurance Company of Australia Limited.

Types of insurance cover fire (building and contents); consequential loss (loss of profits due to fire or any insured peril on property); workers compensation (workers injuries); public liability (covers people visiting on business and being injured); burglary; Marine land risks (fire, flood and other damage to goods); fidelity guarantee (against dishonesty); boiler explosion; product liability, and personal accident.

Get a few comparative quotes on what insurance is necessary and possible. When claiming insurance, do it as quickly as possible. You must prove loss and provide evidence.

GET IN TRAINING

The Commonwealth Government has a range of manpower and training programmes to assist the unemployed.

They provide subsidies to employers for training to help the disadvantaged to proceed through training to permanent work. Subsidies for training are also provided to increase the availability of skills in demand.

Training and employment support for the handicapped and Aborigines is based much more on the needs of the individual.

The Department of Employment and Youth Affairs also provides a range of subsidies and related support measures under the Training in Industry and Commerce programme.

Subsidies are provided under CRAFT for apprenticeship training.

APPRENTICES

The Industrial Training Commission is responsible for the apprenticeship system.

It provides for compulsory trade school classes for apprentices, and balanced, organised on-the-job training in trade skills, for which the employer is responsible.

Minimum wage rates are laid down in the various industrial awards. Details from the Industrial Training Commission. When an apprentice commences, the Commission must be informed, on the prescribed Form 5, within 14 days.

Hours, annual leave, sick leave are the same as for the employer's tradesmen. Details in the relevant Commonwealth or State industrial award.

TAX

All business enterprises - sole traders, partnerships, companies and co-operatives, are subject to tax.

SOLE TRADERS: are treated as individuals.

COMPANIES: The Income Tax Assessment Act defines a company as "all bodies or associations corporate or unincorporated" - except partnerships.

PARTNERSHIPS: Partnerships are treated differently, and each partner is taxed individually.

CO-OPERATIVES: A business may be registered as a Co-operative Society in Victoria, but defined as a company under Federal law.

Division 1X of the Taxation Act sets out lengthy requirements needed for co-operatives to qualify as such for tax purposes. They cover shares, objectives, acquisition, distribution, disposal of members' goods, raising and use of members' funds. The Act insists that 90% of a co-operative's business must be with its members.

A company or co-operative defined as a co-operative for tax purposes is eligible for special deductions, including dividends paid on its shares.

All business enterprises may claim deductions for business expenses, repairs, bad debts, losses of previous years, depreciation, investment allowance, motor vehicle expenses, superannuation and retirement contributions, patents, copyrights, and individual designs.

YOUR "PUBLIC OFFICER"

Unless they are specially exempt, all companies and co-operatives must appoint a Public Officer within three months of commencing business.

The name and address of the Public Officer is given to the Commissioner of Taxation. The Public Officer is answerable for the company's actions in respect of taxation, but is not personally liable for payment of tax. If a Public Officer is not appointed, there is a fine of \$4 for each day the offence continues.

Your business or co-operative will need the advice of an accountant or lawyer on tax matters.

WORKERS COMPENSATION

It is compulsory for all employers to insure against Workers Compensation claims. This applies to persons who employ labour of any kind - even employing a boy to wash your car.

Employers are still liable, even if they do not insure against Workers Compensation claims.

Workers Compensation ensures that a worker who suffers a personal injury arising out of, or in the course of employment is entitled to compensation. It covers:

- o Being at work
- o Travelling from home to work
- o Travelling from work to home

If you work for nothing, you're not defined as a worker under the Act.

A worker is a person employed:

- o Indefinitely on a long-term basis
- o For a fixed short period
- o To do any small job such as gardening.

A person is not a "worker" under the Act if he/she: determines how the job is done; generally advertises for hire; has a business name or partnership, and provides the tools.

As of July 1980, workers compensation payments for an adult were a maximum of \$115, or the worker's average weekly earnings, which ever was the lesser.

Employers must keep posted up in a conspicuous place in every shop or office or factory a prescribed summary of the Workers Compensation Act, including giving notice of injury and making claims.

In the early stages of a co-operative, it would be better for the workers if the co-operative took out a Personal Accident insurance to cover all its workers, as well as Workers Compensation.

You can do this by naming the workers, or by nominating a number of workers, plus their work areas. If an accident occurs, the insurance company has either the worker's name, or your assurance that the worker is one of the number you nominated.

FINANCIAL SYSTEM

Any business must have an adequate, comprehensive financial system.

An active or retired accountant, or someone with financial experience, could help in the formation of the business. This would be particularly helpful with budgets and financial statements, share structure, market survey, outside financial assistance, setting up books of account, and internal finance control.

Such a person could become a director. You need an accountant on the Board, or an accountant's services - paid or unpaid.

A business can't be run by rule of thumb. Proper book keeping is essential.

Basic book keeping needs are :

- o Receipt Book, with the full business name on all original receipts.
- o Cash Book or perhaps two, one each for Income and Expenditure.
- o Purchase Journal.
- o Creditors Ledgers.
- o Sales Journal.
- o Debtors Ledger.
- o Members and Share Ledger: of shareholdings, payments and balance.
- o Minute Books. Separate books for meetings of the business, the Board and committees appointed by the Board.
- o Journal and Private Ledger. The private ledger will be needed to record the accounts of the business.

Don't buy poor quality stationery. Flimsy covers and poor quality paper deteriorate quickly, and you will have to replace them.

HOW'RE YOU GOING?

The cash-flow in and out of a business is its lifeblood.

Comparing actual receipts and expenditure against your cash-flow planned for the future allows you to find out how your business is going.

Regular checks tell you how much cash you have to pay creditors, to buy stock and equipment, and meet your future plans. If all is not as it should be, you can then do something to correct it.

Plan your cash-flow for 12 months, on a monthly basis. It is also useful to plan another 12 months ahead, on a quarterly basis.

Have monthly balance sheets prepared to show your financial position - what you own (your assets) and what you owe (your liabilities). Assets are items which could be converted quickly into cash if need be. Liabilities are amounts owing which must be paid in the near future.

IF YOU'RE NEW

If you are a new business, it is better to check all this monthly, instead of the usual yearly check.

Sales:

- o If you're already in business, you can use last year's monthly sales figures, and check them against the monthly changes you expect for the year ahead.
- o If you're a new business, develop a monthly budget on the research done when you were deciding whether to start the business.

BALANCING

- o Planned cash receipts:
 - a) Cash - match against sales figures for that month
 - b) Credit - slot into the current month, the next month, and the month after, an estimate of receipts from sales for that month.
 - c) Other funds, (loans, grants, equity, sale of assets, etc.)
- o Estimated payments: Classify them as :
 - a) Fixed expenses which do not vary with the volume of business, such as rents, salaries, insurance, telephone, etc.
 - b) Variable expenses which go up or down with the volume of business, such as stock, for re-sale, casual labour.
 - c) Expenditure on fixed assets.
 - d) Regular loan repayments.
- o The net cash-flow is "positive" when receipts exceed payments, and "negative" when payments exceed receipts. This all adds up to give a cash balance. It shows the balance at the beginning of the month, and at the end of the month after adjusting for cash movement. The balance will be either "in credit" or "overdrawn". Costs are deducted from income to determine profit.

This will tell you whether you are underpricing your goods, whether you are paying your creditors too quickly, and whether you are chasing up your debtors quickly enough.

Be sure you have expert accounting advice.

ADDRESSES YOU NEED TO KNOW

Australian Taxation Department, 350 Collins St. Melbourne, 3000.
Tel: (03) 602 0241.

Environment Protection Authority, 240 Victoria Parade, East Melbourne, 3002. Tel: (03) 67 8729.

Department of Employment and Youth Affairs, 367 Collins St. Melbourne, 3000. Tel: (03) 617 7116.

Industrial Training Commission, 500 Bourke St. Melbourne, 3000.
Tel: (03) 602 8111.

Department of Labour & Industry, 500 Bourke St. Melbourne, 3000.
Tel: (03) 651 3991.

Ministry of Consumer Affairs, 500 Bourke St. Melbourne, 3000.
Tel: (03) 602 8123.

Trades Hall Council, Rear 54 Victoria St. Melbourne, 3000.
Tel: (03) 662 3511.

Workers Compensation Board, 570 Bourke St. Melbourne, 3000.
Tel: (03) 67 6391.

Co-operative Federation of Victoria, Mr. Bill Rawlinson, 225 Swanston St. Melbourne, 3000. Tel: (03) 663 1674.

PUBLICATIONS

You'll need at least some of the books, pamphlets and copies of State and Federal Acts (remember, its no defence if you don't know the law). The Consumer Affairs pamphlets are free.

EMPLOYMENT: Contract of Employment (principles of Australian employment law) Brian Brook, CCH Australia Ltd., 1979. Apprenticeship Handbook for Employers & Apprentices, Industrial Training Commission, June, 1980.

CONSUMER AFFAIRS: Free pamphlets from the Consumer Affairs Bureau: Small Claims Tribunal, Directory of Consumer Assistance, Hire Purchase, Buying A Car. Purchase and Service of Household Appliances, 20 Ways not to be Cheated, Customer Dissatisfaction Reporting Systems, Be Sure Before You Sign.

GOODS AND SERVICES: The Trade Practices Commission has a series of Information circulars which set out the effects of the Act in particular situations. Copies of these circulars can be obtained from the Commission, at 99 Queen St. Melbourne 3000: Consumer Protection: Representation that Goods have Accessories they do not have. Consumer Protection: Advertising Guidelines, Advertising and Promotion of Wooden Furniture and Standard Forms of Contract and Uniform Terms of Trading.

Trade Practices Act 1974. Summary Trade Practices Act 1974 as Amended to 6 December 1978, Trade Practices Commission, March 1979. Trade Practices Commission, Consumer Protection Sellers' and Manufacturers' Obligations, Information Circular, No. 26, 5 January, 1979.

ENVIRONMENT: The Environment Protection Act 1970, An Explanation, Report 84/79. Discharging Wastes: Environment Protection Authority of Victoria, Report No. 78/79, 1979. Discharging Wastes to Water: Environment Protection Authority of Victoria, Report No. 81/79, June 1979.

INSURANCE: Insurance, Teach Yourself Books, Hugh Cockerell, Hodder & Stoughton, 1976. Insurance, Managing the Small Business; Department of Industry and Commerce, AGPS, Canberra 1980.

TAXATION: Australian Master Tax Guide, and Australian Federal Tax Reporter, CCH Australia Ltd., 1980. Taxation, Department of Industry and Commerce, AGPS Canberra, 1979.

WORKERS COMPENSATION: Workers Compensation Act 1958. Injured at Work, Law Institute of Victoria, 1980.

ACCOUNTING: Management Accounting for Small Firms, Productivity Council of Victoria 1978. Accounting Systems and Procedures for Small Manufacturers, Managing the Small Business series, No. 4, Department of Industry and Commerce.